STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE

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MEMORANDUM

TO: County and Township Assessors

FROM: Assessment Division, Department of Local Government Finance

DATE: May 2006

RE: Personal Property With Deductions And 30% Floor Per SEA 260-2006

Senate Enrolled Act 260 passed by the 2006 General Assembly has several changes that are retroactive. Effective January 1, 2006 there is a change in the calculation of the assessed value to be abated for certain Economic Revitalization Area abatements and the Investment Deduction. This change came after the completion of the personal property forms. This memorandum discusses the nature of the change and addresses how to implement the change.

SEA 260-2006 (section 27) adds a new sub-section to IC 6-1.1-12.1-4.5, part of the statute on the abatement of personal property in ERAs.

> (i) For purposes of subsection (d), the assessed value of new manufacturing equipment, new research and development equipment, new logistical distribution equipment, or new information technology equipment that is part of an owner's assessable depreciable personal property in a single taxing district subject to the valuation limitation in 50 IAC 4.2-4-9 or 50 IAC 5.1-6-9 is the product of:
> (1) the assessed value of the equipment determined without regard to the valuation limitation in 50 IAC 4.2-4-9 or 50 IAC 5.1-6-9; multiplied by
> (2) the quotient of:
> (A) the amount of the valuation limitation determined under 50 IAC 4.2-4-9 or 50 IAC 5.1-6-9 for all of the owner's depreciable personal property in the taxing district; divided by
> (B) the total true tax value of all of the owner's depreciable personal property in the taxing district that is subject to the valuation limitation in 50 IAC 4.2-4-9 or 50 IAC 5.1-6-9 determined:
> (i) under the depreciation schedules in the rules of the department of local government finance before any adjustment for abnormal obsolescence; and
> (ii) without regard to the valuation limitation in 50 IAC 4.2-4-9 or 50 IAC 5.1-6-9.

Effectively this sub-section increases the assessed value to be used for the calculation of the abatement deduction when a taxpayer is subject to the 30% floor. The provision expresses as a ratio, the increase in the entity's true tax value from the pooling schedules compared to the entity's true tax value under the mandated minimum value under 50 IAC 4.2-4-9 (30% floor) or 50 IAC 5.1-6-9 (utility 30% floor). For the purposes of this memorandum, the ratio will be called the minimum value ratio or MVR. For the purpose of calculating the abatement deduction, the assessed value of items that have been assessed by the mandatory minimum value (30% floor) is equal to the true tax value calculated from the pooling percentage multiplied by the MVR.

This sub-section does not apply to equipment installed prior to March 2, 2001 as those abatements deductions are calculated based on the first year true tax value.

Example 1:

In the fall of 2005, ABC Widget Company purchased new equipment at a cost of $100,000. They received a ten year abatement. The other depreciable assets were purchased in 1995 for a cost of $500,000. All equipment is in pool 2 and no other adjustments are applicable.

Year of Acquisition	Column C Adj. Cost	TTV %	Column D TTV
2005	100,000	40	40,000
1995	500,000	15	75,000
Total Pools to Line 56D	600,000		$115,000
Entry for Line 57	600,000	@30%	$180,000

The ABC Widget Company's depreciable assets will assessed at a true tax value of $180,000 for March 1, 2006. The minimum value ratio is calculated:

$$\text{MVR} = \text{Line 57} \div \text{Line 56 Column D}$$
$$\$180{,}000 \div 115{,}000 \quad = \quad 1.56522$$

Therefore, the true tax value of the assets under the depreciation pools have been increased by a factor of 1.56522 to produce the true tax value required by the mandatory minimum value. Based on IC 6-1.1-12.1-4.5 (i) one could restate the true tax value of the entries as follows:

Year of Acquisition	Column D TTV	Minimum Value Ratio	Mandated Minimum Value
2005	40,000	1.56522	62,609
1995	75,000	1.56522	117,391
Total Pools to Line 56D	115,000	1.56522	180,000
Entry for Line 57	180,000		180,000

For the purposes of the abatement calculation, the individual entries are adjusted upward to get to the mandated minimum value. In the example, the deduction for the abated equipment is the applicable abatement percentage multiplied by the 62,609.

IMPLEMENTATION FOR 2006 PAY 2007

1. Complete form 103 – LONG through Line 58.
2. **If Line 58 is equal to Line 57**, Calculate the Minimum Value Ratio (MVR) using 5 digit precision:
   MVR = Line 57 (Column D) ÷ Line 56 (Column D)
3. Enter the MVR in the area under Column C on Line 58.
4. On the 103 – ERA, Enter the MVR in the blank space to the right of
   "**NOTE: See page 2 of this form for the balance of the pooling schedules.**"
5. If the equipment is installed after March 1, 2001, in the pooling schedules of the 103 – ERA:
   a. Enter the Column C Adjusted Cost.
   b. Circle 30% in the TTV% column and underline the actual pool % that was used in the calculation of the final column of the schedule of depreciable assets on the return.
   c. Multiple the Column C Adjusted Cost by the "actual pooling %" that is to the left of the circled 30% and by the MVR. Do not use the 30% in the multiplication.
   d. Enter the result in column Labeled True Tax Value [per 103 or IC 6-1.1-12.1-4.5 (f)].
   e. Apply Abatement Percent to yield the Deduction Claimed.
6. If the equipment is installed prior to March 2, 2001:
   a. Enter the Column C Adjusted Cost.
   b. Circle **XX% (where XX is the first year pool %) in the TTV% column.

c. Multiple the Column C Adjusted Cost by the "first year pooling %" that is circled. Do not apply the MVR.
d. Enter the result in column Labeled True Tax Value [per 103 or IC 6-1.1-12.1-4.5 (f)].
e. Apply Abatement Percent to yield the Deduction Claimed.

7. Sum the individual Deduction Claimed and carry forward to page 1 of the 103.

Example 2:

The entries on the 103-ERA for the ABC Widget Company would be:

NOTE: See Page 2 of this form for the balance of pooling schedules. *1.56522*
* In TTV % and True Tax Value Columns, circle and apply the percentage that the assessment is based upon. If, on the Form 103 Long, the entry on Line 58 is equal to Line 57, Use 30%. If Line 58 is equal to Line 56, use the applicable Pool Percentages.

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POOL NUMBER 1: (1 TO 4 YEAR LIFE)		103 Schedule A Column C Adjusted Cost	* TTV % (Circle one)	True Tax Value - per 103 or per IC 6-1.1-12.1-4.5 (f)**	Abatement Year	Abatement Percent	Deduction Claimed	Deduction Approved
13	From To 3-1-06 ***	$	65% 30%	$	1	%	$	$
18	**TOTAL POOL NUMBER 1**	$	--	$	--	--	$	$

POOL NUMBER 2: (5 TO 8 YEAR LIFE)		103 Schedule A Column C Adjusted Cost	* TTV % (Circle one)	True Tax Value - per 103 or per IC 6-1.1-12.1-4.5 (f)**	Abatement Year	Abatement Percent	Deduction Claimed	Deduction Approved
19	From To 3-1-06 ***	$	40% 30%	$	1	%	$	$
20	3-2-05 To 3-1-06	*100,000*	40% 30%	*62,609*	1	*100%*	*62,609*	
21	3-2-04 To 3-1-05		56% 30%		2			
22	3-2-03 To 3-1-04		42% 30%		3			
23	3-2-02 To 3-1-03		32% 30%		4			
24	3-2-01 To 3-1-02		24% 30%		5			
25	3-2-00 To 3-1-01		**40% 30%		6			
26A	3-2-99 To 3-1-00		**40% 30%		7			
26B	3-2-98 To 3-1-99		**40% 30%		8			
26C	3-2-97 To 3-1-98		**40% 30%		9			
26D	3-2-96 To 3-1-97		**40% 30%		10			
27	**TOTAL POOL NUMBER 2**	$	--	$	--	--	$	$

SUB-TOTAL- POOLS 1 and 2 (Total lines 18 and 27. Enter to the right and on Page 2)	$ *62,609*	$

Example 3:

The XYZ Doodad Company made the same purchases as its competitor, the ABC Widget Company, but it also has an additional asset under abatement that cost $50,000 when it was new in 1998. They also received a 10 year abatement but their SB-1 was approved in 1998.

Year of Acquisition	Column C Adj. Cost	TTV %	Column D TTV
2005	100,000	40	40,000
1998	50,000	15	7,500
1995	500,000	15	75,000
Total Pools to Line 56D	650,000		$122,500
Entry for Line 57	650,000	@30%	$195,000

The XYZ Doodad Company's depreciable assets will assessed at a true tax value of $195,000 for March 1, 2006. The minimum value ratio is calculated as:

MVR = Line 57 ÷ Line 56 Column D
$195,000 ÷ 122,500 = 1.59184

The entries on the 103-ERA for the XYZ Doodad Company would be:

NOTE: See Page 2 of this form for the balance of pooling schedules. *1. 59184* * In TTV % and True Tax Value Columns, circle and apply the percentage that the assessment is based upon. If, on the Form 103 Long, the entry on Line 58 is equal to Line 57, Use 30%. If Line 58 is equal to Line 56, use the applicable Pool Percentages.								**Assessing Official Use Only**
POOL NUMBER 1: (1 TO 4 YEAR LIFE)		103 Schedule A Column C Adjusted Cost	* TTV % (Circle one)	True Tax Value - per 103 or per IC 6-1.1-12.1-4.5 (f)**	Abatement		Deduction Claimed	Deduction Approved
					Year	Percent		
13	From To 3-1-06 ***	$	65% 30%	$	1	%	$	$
18	**TOTAL POOL NUMBER 1**	$	--	$	--	--	$	$

POOL NUMBER 2: (5 TO 8 YEAR LIFE)		103 Schedule A Column C Adjusted Cost	* TTV % (Circle one)	True Tax Value - per 103 or per IC 6-1.1-12.1-4.5 (f)**	Abatement		Deduction Claimed	Deduction Approved
					Year	Percent		
19	From To 3-1-06 ***	$	40% 30%	$	1	%	$	$
20	3-2-05 To 3-1-06	*100,000*	40% 30%	*63,674*	1	*100%*	*63,674*	
21	3-2-04 To 3-1-05		56% 30%		2			
22	3-2-03 To 3-1-04		42% 30%		3			
23	3-2-02 To 3-1-03		32% 30%		4			
24	3-2-01 To 3-1-02		24% 30%		5			
25	3-2-00 To 3-1-01		**40% 30%		6			
26A	3-2-99 To 3-1-00		**40% 30%		7			
26B	3-2-98 To 3-1-99	*50,000*	**40% 30%	*20,000*	8	*40%*	*8,000*	
26C	3-2-97 To 3-1-98		**40% 30%		9			
26D	3-2-96 To 3-1-97		**40% 30%		10			
27	**TOTAL POOL NUMBER 2**	$	--	$	--	--	$	$

SUB-TOTAL- POOLS 1 and 2 (Total lines 18 and 27. Enter to the right and on Page 2)	$ *71,674*	$

APPLICABILITY TO THE INVESTMENT DEDUCTIONS

The Investment Deduction (IC 6-1.1-12.4) cross-references to the calculations in IC 6-1.1-12.1 so the 30% floor and the Minimum Value Ratio is applicable to the PPID-1. There is no cross reference in the Enterprise Zone Investment Deduction (IC 6-1.1-45) so the MVR does not apply to the EZ-2 investment deduction.

The suggested entry on the PPID-1 would be to use the Section 2 box. If the ABC Widget Company was not in an ERA and was claiming an Investment Deduction on property they purchased after March 2, 2005, then they could enter the following:

Total cost of the personal property investment as shown in the "Adjusted Cost" column of Schedule A of the personal property return
*Adj. Cost = $100,000 * TTV% 40% * Min. Value Ratio 1.56522 = True Tax Value of $62,609*

The first year deduction would be calculated as $62,609 multiplied times 75% or $46,957. Note: If there are multiple investments that have different federal asset life expectancies or acquisition dates, they will have a different TTV percentage and it will not be possible to capture that in the suggested space. The taxpayer should attach a separate schedule showing those calculations.

COUNTY ASSESSORS: Please distribute copies of this memorandum to the Townships Assessors in your county. Thank you in advance for your assistance! If you have any questions, please contact your field representative or the assessment division at 317-232-3773.